



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

December 27, 2006

H.R. 6164 **National Institutes of Health Reform Act of 2006**

As cleared by the Congress on December 9, 2006

SUMMARY

Title I of H.R. 6164 would authorize appropriations for the activities of the National Institutes of Health (NIH) for fiscal years 2007 through 2009. Those costs for implementing the act would total about \$90 billion over the 2007-2011 period, but are subject to appropriation of the necessary amounts.

The provisions in Title I would not affect direct spending or receipts. Title II, however, would affect direct spending. The remainder of this cost estimate focuses on the legislation's impact on direct spending.

Title II of H.R. 6164 would make several changes to the availability of allotments for the State Children's Health Insurance Program (SCHIP). The act would require that all unspent funds from the allotments for fiscal year 2004 and certain unspent funds from the allotments for fiscal year 2005 be redistributed to states that the Secretary of Health and Human Services (HHS) estimates will experience funding shortfalls in 2007. The act also would allow certain states to spend a portion of their SCHIP allotments for fiscal years 2006 and 2007 on children enrolled in Medicaid.

CBO estimates that enacting H.R. 6164 would increase direct spending by \$70 million in 2007, by \$25 million over the 2007-2011 period, and by \$50 million over the 2007-2016 period. The act would increase SCHIP spending in 2007 by \$135 million and reduce spending by \$125 million over the 2008-2011 period, because some states would spend some SCHIP funds sooner than they would under current law. At the same time, the act would affect the extent to which states would use Medicaid funds to offset shortfalls in SCHIP funding (making that use of Medicaid funds less likely in 2007 and more likely in later years). We estimate that the act would reduce Medicaid spending by \$65 million in 2007 and increase spending by \$105 million over the 2008-2016 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of H.R. 6164 on direct spending is shown in the following table. The costs of this legislation fall within budget function 550 (health).

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | |
|---|--|------|------|------|------|------|------|------|------|------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| CHANGES IN DIRECT SPENDING | | | | | | | | | | |
| State Children's Health Insurance Program | | | | | | | | | | |
| Budget Authority | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Estimated Outlays | 135 | -80 | -20 | -15 | -10 | 0 | 0 | 0 | 0 | 0 |
| Medicaid | | | | | | | | | | |
| Estimated Budget Authority | -65 | 45 | 15 | 10 | 10 | 5 | 5 | 5 | 5 | 5 |
| Estimated Outlays | -65 | 45 | 15 | 10 | 10 | 5 | 5 | 5 | 5 | 5 |
| Total Changes | | | | | | | | | | |
| Estimated Budget Authority | -65 | 45 | 15 | 10 | 10 | 5 | 5 | 5 | 5 | 5 |
| Estimated Outlays | 70 | -35 | -5 | -5 | 0 | 5 | 5 | 5 | 5 | 5 |

BASIS OF ESTIMATE

The State Children's Health Insurance Program provides federal matching funds to states to provide health coverage to certain children—generally in families with income below 200 percent of the federal poverty level—who do not qualify for Medicaid and do not have private health coverage. States may provide this coverage by expanding their Medicaid program, setting up a separate program, or a combination of the two. SCHIP began operation in 1998 and is authorized through 2007. CBO's baseline for later years follows statutory rules and assumes continued funding at the 2007 level.

Availability of SCHIP Funds Under Current Law

SCHIP gives each state an annual allotment that limits the amount of federal matching funds that the state can receive. States have three years to spend their allotments. At the end of the third year, the Secretary takes any unspent amounts and redistributes them to states that have spent their entire allotment. (HHS devises the exact method used to allocate the unspent amounts among eligible states. For the past two years, HHS has given states with projected shortfalls first priority in receiving redistributed funds, and we anticipate that HHS will

continue that practice under current law.) These redistributed funds are available for an additional year. After that, any unused allotments expire.

Availability of SCHIP Funds Under H.R. 6164

Title II of H.R. 6164 would require the Secretary to redistribute the unspent amounts from the 2004 allotments to states that are projected to face funding shortfalls in 2007. (Under the act, a state has a funding shortfall if its projected spending in 2007 is greater than the sum of the state's 2007 allotment and any remaining amounts from the 2005 and 2006 allotments.) The unspent amounts would be redistributed on a monthly basis until funds are no longer available.

The act also would require the Secretary to redistribute some unspent funds from the 2005 allotments to states that would still face funding shortfalls after the redistribution of unspent 2004 funds. Those redistributions would begin in April 2007—six months earlier than under current law—and would be made on a monthly basis until funds are no longer available. The amount that would be redistributed would equal half of each state's unspent 2005 funds as of March 31, 2007, or \$20 million, whichever is less.

Finally, the act would allow certain states to spend up to 20 percent of their allotments for 2006 and 2007 on children who are enrolled in Medicaid and have family incomes greater than 150 percent of the federal poverty level. States could use those amounts to claim the additional matching funds that they would have received if those children were enrolled in SCHIP instead of Medicaid and thus reduce the state share of Medicaid spending. (The average federal match rate is 70 percent for SCHIP, compared to 57 percent for Medicaid.)

Budgetary Effects of Title II of H.R. 6164

CBO estimates that enacting title II would increase SCHIP outlays by \$135 million in 2007 and reduce spending by a total of \$125 million between 2008 and 2011. Those budgetary effects are due largely to the redistribution—in 2007—of some unspent funds from the 2005 allotments.

We estimate that the requirement to redistribute the unspent 2004 funds to states with projected shortfalls would have no net impact on the federal budget. Based on recent HHS practice, we expect that HHS will redistribute those funds to states with projected shortfalls under current law. The act might lead individual states to receive more or less in redistributed funds than they would under current law, but the total amount that would be redistributed—and spent—in 2007 would remain the same.

Based on information from the Centers for Medicare & Medicaid Services, CBO estimates that HHS would redistribute about \$125 million in unspent 2005 funds in 2007 under the act. That amount would be much less than the aggregate funding shortfalls that states face this year—an estimated \$670 million, after accounting for the redistribution of unspent 2004 funds—so we anticipate that the full amount would be spent in 2007. (The remaining \$10 million in additional outlays in 2007 would occur in states that under the act would be able to spend some of their allotments on children enrolled in Medicaid.)

CBO estimates that the additional funds spent in 2007 under H.R. 6164 would be spent in later years under current law, so the act would reduce SCHIP spending in 2008 through 2011.

CBO expects that, under current law, states facing funding shortfalls in SCHIP will partly offset those shortfalls by expanding Medicaid eligibility. Doing so would allow states to continue receiving federal matching funds, albeit at a less-favorable matching rate. H.R. 6164 would reduce those shortfalls in 2007 but increase them in later years. As a result, we estimate that the act would reduce Medicaid spending by \$65 million in 2007, but would raise Medicaid spending by a total of \$105 million over the following nine years.

PREVIOUS CBO ESTIMATE

On September 25, 2006, CBO transmitted a cost estimate for H.R. 6164, the National Institutes of Health Reform Act of 2006, as ordered reported by the House Committee on Energy and Commerce on September 20, 2006. That version of the legislation did not contain the SCHIP and Medicaid provisions discussed above. (The previous CBO estimate provides more detail on the legislation's authorizations of discretionary spending.)

ESTIMATE PREPARED BY: Eric Rollins and Jeanne De Sa

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis